CODIFICATION OF ISLAMIC BANKING PRODUCTS

Directorate of Islamic Banking

Bank Indonesia

2008

CONTENTS

A. DEPOSITS FUND

I. ISLAMIC DEMAND DEPOSIT

a. **Definition**

Demand deposit is a deposit that can be withdrawn at any time using cheque, other payment instruction, or by overbooking.

b. **Contract**

1) **Wadiah**

Goods or money custody between the owner and the entrusted party with the obligation of the entrusted party to return the goods or money at any time.

2) **Mudharabah**

Partnership between the fund owner (shahibul maal) and fund manager (mudharib) by sharing the business profit according to the contract.

c. **Feature and Mechanism**

Demand deposit based on Wadiah contract

- Bank shall act as the party receiving the funds and customer shall acts as the party placing the funds;
- Bank may not make any promise of return or bonus to the customer;
- Bank may charge customer administration fee in the form of expenses directly related to the account management fee such as chequebook printing expenses, stamp duty, printing of transaction report and balance statement, opening and closing of account;
- Bank shall guarantee the return of funds to the customer; and
- The fund may be withdrawn by customer at any time.

Demand deposit based on Mudharabah contract

- Bank shall act as the fund manager (mudharib) and customer shall act as the fund owner (shahibul maal);
- Profit sharing method shall be defined in accordance with the ratio agreed in advance;
- Bank may charge customer administration fee in the form of expenses directly related to the account management fee such as chequebook printing expenses, stamp duty, printing of transaction report and balance statement, opening and closing of account; and
- Bank is not permitted to reduce the ratio of customer's profit without any prior approval from the customer.

d. **Objective/Benefit**

1) **For Bank**

- sources of fund both in Rupiah and Foreign currency.
- sources of revenue in the form of fee (fee based income) from further activity conducted by customer.

2) For Customer		- to facilitate payment activities and/or incoming payment - to earn possible bonus or profit sharing
e.	Risk Analysis and Identification	- Liquidity Risk due to the relatively high fluctuation of demand deposit and the Bank have responsibility to fulfill its short-term obligation. - Market Risk due to the movement of exchange rate for demand deposit in foreign currency.
f.	Fatwa	Fatwa of National Islamic Council No: 01/DSN -MUI/IV/2000 concerning Demand Deposit.
g.	References	- Bank Indonesia Regulation No.3/10/PBI/2001 concerning Know Your Customer Principles including its amendments. - Bank Indonesia Regulation No.7/6/PBI/2005 concerning Transparency of Banking Products Information and The Use of Customer's Personal Data including its amendments. - Bank Indonesia Regulation No.9/19/PBI/2007 concerning Implementation of Sharia Principles in Deposits Fund, Financing, and Services including its amendments.
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II. ISLAMIC SAVING DEPOSIT

a. Definition

Saving deposit is a deposit that can be withdrawn based on specified requirements agreed in advance, but cannot be withdrawn using cheque and or other similar instruments.

b. Contract

1) Wadiah

Goods or money custody between the owner and the entrusted party with the obligation of the entrusted party to return the goods or money at any time.

2) Mudharabah

Partnership between the fund owner (shahibul maal) and fund manager (mudharib) by sharing the business profit according to the contract.

c. Feature and Mechanism

Saving deposit based on Wadiah contract

- Bank shall act as the party receiving the funds and customer shall acts as the party placing the funds;
- Bank may not make any promise of return or bonus to the customer;
- Bank may charge customer administration fee in the form of expenses directly related to the account management fee such as chequebook printing expenses, stamp duty, printing of transaction report and balance statement, opening and closing of account;
- Bank shall guarantee the return of funds to the customer; and
- The fund may be withdrawn by customer at any time.

Saving deposit based on Mudharabah contract

- Bank shall act as the fund manager (mudharib) and customer shall act as the fund owner (shahibul maal);
- Profit sharing method shall be defined in accordance with the ratio agreed in advance;
- Fund withdrawal by customer may only be conducted based on the agreed term;
- Bank may charge customer administration fee in the form of expenses directly related to the account management fee such as chequebook printing expenses, stamp duty, printing of transaction report and balance statement, opening and closing of account; and
- Bank is not permitted to reduce the ratio of customer's profit without any prior approval from the customer.

d. Objective/Benefit

1) For Bank	- source of fund both in Rupiah and Foreign currency. - sources of revenue in the form of fee (fee based income) from further activity conducted by customer.
2) For Customer	- to facilitate the liquidity management in terms of deposit, withdrawal, transfer and flexible transaction payment. - to earn possible bonus or profit sharing
e. Risk Analysis and Identification	- Liquidity Risk due to the relatively high fluctuation of saving deposit compared to time deposit. - Commercial Displacement Risk due to customer's possibility to displace the fund pertaining to the fact that the real return (bonus or profit sharing) is lower than the interest rate. - Market Risk due to the movement of exchange rate for saving deposit in foreign currency
f. Fatwa	Fatwa of National Islamic Council No: 02/DSN-MUI/IV/2000 concerning Saving Deposit.
g. References	- Bank Indonesia Regulation No.3/10/PBI/2001 concerning Know Your Customer Principles including its amendments. - Bank Indonesia Regulation No. 7/6/PBI/2005 concerning Transparency of Banking Products Information and The Use of Customer's Personal Data including its amendments. - Bank Indonesia Regulation No.9/19/PBI/2007 concerning Implementation of Sharia Principles in Deposits Fund, Financing, and Services including its amendments.
h. Accounting Treatment	- PSAK No. 59 concerning Islamic Banking Accounting - PSAK No. 105 concerning Mudharabah Accounting - Applicable PAPSI
i. Applicable to	Islamic Commercial Banks, Islamic Business Units and Islamic Rural Banks

III. ISLAMIC TIME DEPOSIT

a. Definition	Time deposit is a deposit of funds that may only be withdrawn after a specified term based on the agreement between the customer and the bank.
b. Contract	
Mudharabah	Partnership between the fund owner (shahibul maal) and fund manager (mudharib) by sharing the business profit according to the contract.
c. Feature and Mechanism	- Bank shall act as the fund manager (mudharib) and customer shall act as the fund owner (shahibul maal); - Fund management by the Bank may be conducted with the restrictions defined by fund owner (mudharabah muqayyadah) or conducted without any restriction from the fund owner (mudharabah mutlaqah); - Restrictions defined by customer should be clearly specified in Mudharabah Muqayyadah agreement; - Profit sharing method shall be defined in accordance with the ratio agreed in advance; - Fund withdrawal by customer may only be conducted based on the agreed term; - Bank may charge customer administration fee in the form of expenses directly related to the account management fee such as chequebook printing expenses, stamp duty, printing of transaction report and balance statement, opening and closing of account; and - Bank is not permitted to reduce the ratio of customer's profit without any prior approval from the customer.
d. Objective/Benefit	
1) For Bank	sources of fund both in Rupiah and foreign currency with a articular tenor and a relatively low fund fluctuation.
2) For Customer	investment alternative that offers benefits in the form of profit sharing.
e. Risk Analysis and Identification	- Liquidity Risk due to significant maturity gap between deposits fund and financing. - Commercial Displacement Risk due to customer's possibility to displace the fund pertaining to the fact that the real return (bonus or profit sharing) is lower than the interest rate.

- Market Risk due to the movement of exchange rate for time deposit in foreign currency.

f. Fatwa

Fatwa of National Islamic Council No: 03/DSN-MUI/IV/2000 concerning Time Deposit.

g. References

- Bank Indonesia Regulation No.3/10/PBI/2001 concerning Know Your Customer Principles including its amendments.
- Bank Indonesia Regulation No. 7/6/PBI/2005 concerning Transparency of Banking Products Information and The Use of Customer's Personal Data including its amendments.
- Bank Indonesia Regulation No.9/19/PBI/2007 concerning Implementation of Sharia Principles in Deposits Fund, Financing, and Services including its amendments.

h. Accounting Treatment

- PSAK No. 105 concerning Mudharabah Accounting
- Applicable PAPSI

i. Applicable to

Islamic Commercial Banks, Islamic Business Units and Islamic Rural Banks

B. FINANCING

I. FINANCING BASED ON MUDHARABAH CONTRACT

a. Definition

Financing is a provision of funds or claims in the form of:

a. profit sharing transaction in the form of *Mudharabah* and *Musyarakah*;
b. leasing transaction in the form of *Ijarah* or lease and purchase transaction in the form of *Ijarah Muntahiyah bit Tamlik*;
c. sale and purchase transaction in the form of *Murabahah*, *Salam,* and *Istishna'*;
d. lending transaction in the form of *Qardh;* and
e. leasing transaction in the form of *Ijarah* for multi service financing;

based on agreement between Islamic Bank and/or Islamic Business Unit and another party obligating the party receiving financing and/or facility of funds to repay the funds after a specific term with additional return in the form of ujroh, without additional return or profit sharing.

b. Contract

1) Mudharabah — Unrestricted Mudharabah.

2) Mudharabah Muthlaqah — Restricted Mudharabah in type of business, tenor, and place in accordance with the requirement of fund owner.

c. Feature and Mechanism

- Bank shall act as fund owner (shahibul maal) that provides funds for working capital, and customer shall act as fund manager (mudharib) in the business activities:
- Bank shall retain rights in the supervision and development of customer's business even though it shall not directly participate in the management of customers business activities. For example, Bank is entitled to review and to request evidence related to business report based on reliable supporting documents;
- Profit sharing ratio from fund management shall be specified in advance;
- The agreed ratio of profit sharing may not be changed in the course of investment period, unless upon mutual agreement of both parties;
- Term of financing based on Mudharabah, fund repayment and profit sharing ratio shall be determined in accordance with the agreement between Bank and customer;

- Financing based on Mudharabah agreement will be provided in cash and/or goods and not in the form of receivables or claims;
- In the event where financing based on Mudharabah agreement is provided in the form of cash, the amount must be clearly stated;
- In the event where financing based on Mudharabah agreement is provided in the form of goods, the concerned goods must be appraised based on market value (net realizable value) and the amount must be clearly stated;
- Repayment of financing based on Mudharabah agreement is conducted in two ways: in installment or bullet payment based on the term of financing based on Mudharabah agreement.
- Profit sharing is conducted by referring to the business report with the reliable supporting document; and
- Loss of customer's business that can be borne by Bank as fund owner (shahibul maal) is maximum the same amount as the financing provided (ra'sul maal).

d. Objective/Benefit

1) For Bank
- as one of the forms in financing
- earning revenue in the form of profit sharing in accordance with the business performance managed by customer.

2) For Customer
- fulfilling the need of business capital through bank partnership system.

e. Risk Analysis and Identification
- Credit Risk due to customer's default
- Market Risk due to the movement of exchange rate if the financing based on Mudharabah agreement is provided in foreign currency.
- Operational Risk due to internal fraud such as incorrect record of outstanding value, bribery, inconformity of tax reports (intentionally), errors, manipulation and marking up in accounting and reporting.

f. Fatwa

Fatwa of National Islamic Council No: 07/DSN MUI/IV/2000 concerning Mudharabah Financing (Qiradh).

g. References
- Bank Indonesia Regulation No. 7/6/PBI/2005 concerning Transparency of Banking Products Information and The Use of Customer's Personal Data including its amendments.

- Bank Indonesia Regulation No.9/19/PBI/2007 concerning Implementation of Sharia Principles in Deposits Fund, Financing, and Services including its amendments.

h. Accounting Treatment
- PSAK No. 105 concerning Mudharabah Accounting
- Applicable PAPSI

i. Applicable to
Islamic Commercial Banks, Islamic Business Units and Islamic Rural Banks

II. FINANCING BASED ON MUSYARAKAH CONTRACT

a. Definition

Financing is a provision of funds or claims in the form of:

a. profit sharing transaction in the form of *Mudharabah* and *Musyarakah*;
b. leasing transaction in the form of *Ijarah* or lease and purchase transaction in the form of *Ijarah Muntahiyah bit Tamlik*;
c. sale and purchase transaction in the form of *Murabahah*, *Salam,* and *Istishna'*;
d. lending transaction in the form of *Qardh;* and
e. leasing transaction in the form of *Ijarah* for multi service financing;

based on agreement between Islamic Bank and/or Islamic Business Unit and another party obligating the party receiving financing and/or facility of funds to repay the funds after a specific term with additional return in the form of ujroh, without additional return or profit sharing.

b. Contract

Musyarakah

Transaction of investment from two or more fund and/or goods owners to conduct a specified business activity in compliance with sharia principles, with a division of profit between those parties based on ratio agreed in advance while division of loss will be based on capital proportion of each party.

c. Feature and Mechanism

- Bank and customer shall act as business partners and provide funds and/or goods in order to finance a specified business activity;
- Customer shall act as business manager and Bank being business partner will be able to participate in the management of business activity in accordance with tasks and authorities agreed in advance such as to review and to request evidence related to business performance report based on the reliable supporting documents;
- Profit sharing ratio from the fund management shall be specified in the agreed ratio in advance;
- The agreed ratio of profit sharing may not be changed in the course of investment period, unless upon mutual agreement of both parties;
- Financing based on Musyarakah contract will be provided in the form of cash and/or goods and not in the form of receivables or claim;

- In the event where financing based on Musyarakah contract is provided in the form of cash, the amount must be clearly stated;
- In the event where financing based on Musyarakah contract is provided in the form of goods, the concerned goods must be appraised based on market value (net realizable value) and the amount must be clearly stated;
- The terms of financing based on Musyarakah contract, fund repayment and profit sharing ratio shall be determined in accordance with the agreement between Bank and customer;
- Repayment of financing based on Musyarakah contract is conducted in two ways: by installment or bullet payment based on the term of financing based on Musyarakah contract;
- Profit sharing is conducted based on the business report with the reliable supporting document; and
- Bank and customer shall bear any loss on business activity on pro rata basis in accordance with the portion of capital of each party.

d. Objective/Benefit

1) For Bank

- as one of the forms in financing
- earning revenue in the form of profit sharing by referring to the revenues of the business under their management.

2) For Customer

- fulfilling the need of business capital through bank partnership system.

e. Risk Analysis and Identification

- Credit risk due to customer's default
- Market Risk due to the movement of exchange rate if financing based on Musyarakah agreement is provided in foreign currency.
- Operational Risk due to internal fraud such as incorrect record of outstanding value, bribery, inconformity of tax reports (intentionally), errors, manipulation and marking up in accounting and reporting.

f. Fatwa

Fatwa of National Islamic Council No: 08/DSN-MUI/IV/2000 concerning Musyarakah Financing.

g. References

- Bank Indonesia Regulation No. 7/6/PBI/2005 concerning Transparency of Banking Products Information and The Use of Customer's Personal Data including its amendments.

- Bank Indonesia Regulation No.9/19/PBI/2007 concerning Implementation of Sharia Principles in Deposits Fund, Financing, and Services including its amendments.

h. Accounting Treatment
- PSAK No. 106 concerning Musyarakah Accounting
- Applicable PAPSI

i. Applicable to

Islamic Commercial Banks, Islamic Business Units and Islamic Rural Banks

III. FINANCING BASED ON MURABAHAH CONTRACT

a. Definition

Financing is a provision of funds or claims in the form of:

a. profit sharing transaction in the form of *Mudharabah* and *Musyarakah*;
b. leasing transaction in the form of *Ijarah* or lease and purchase transaction in the form of *Ijarah Muntahiyah bit Tamlik*;
c. sale and purchase transaction in the form of *Murabahah*, *Salam,* and *Istishna'*;
d. lending transaction in the form of *Qardh;* and
e. leasing transaction in the form of *Ijarah* for multi service financing;

based on agreement between Islamic Bank and/or Islamic Business Unit and another party obligating the party receiving financing and/or facility of funds to repay the funds after a specific term with additional return in the form of ujroh, without additional return or profit sharing.

b. Contract

Murabahah

Transaction of buy and sell of specified goods with value equivalent to the price of the goods added by margin defined in advance by both parties. Seller provides information on the price of the goods in advance to the buyer.

c. Feature and Mechanism

- Bank shall act as the provider of fund in transaction Murabahah with customer;
- Bank may partly or entirely finance the purchase of goods with qualifications agreed in advance;
- Bank shall have the obligation to provide fund for the realization of the goods procurement ordered by customer, and
- Bank may be able to give reasonable discount without prior agreement.

d. Objective/Benefit

1) For Bank

- as one of the forms in financing
- earning revenue in the form of margin.

2) For Customer

- one of the alternatives of procurement of certain goods by using bank financing.

- ability to pay in installment with a flat amount in the course of agreement period.

e. Risk Analysis and Identification

- Credit Risk due to customer's default
- Market Risk due to the movement of exchange rate if the financing based on Murabahah agreement is provided in foreign currency

f. Fatwa

- Fatwa of National Islamic Council No: 04/DSN-MUI/IV/2000 concerning Murabahah financing.
- Fatwa of National Islamic Council No: 10/DSN-MUI/IV/2000 concerning Wakalah
- Fatwa of National Islamic Council No: 13/DSN-MUI/IV/2000 concerning Down Payment in Murabahah financing
- Fatwa of National Islamic Council No: 16/DSN-MUI/IV/2000 concerning Discount in Murabahah financing
- Fatwa of National Islamic Council No: 23/DSN-MUI/IV/2002 concerning discount in the settlement of payment in Murabahah financing
- Fatwa of National Islamic Council No: 46/DSN-MUI/IV/2005 concerning discount on the claim of Murabahah (Khasim Fi Al Murabahah)
- Fatwa of National Islamic Council No: 47/DSN-MUI/IV/2005 concerning Receivables Settlement of Murabahah financing for Customers with payment disability
- Fatwa of National Islamic Council No: 48/DSN-MUI/IV/2005 concerning rescheduling of Murabahah Claim
- Fatwa of National Islamic Council No: 49/DSN-MUI/IV/2005 concerning Conversion of Murabahah Agreement

g. References

- Bank Indonesia Regulation No. 7/6/PBI/2005 concerning Transparency of Banking Products Information and The Use of Customer's Personal Data including its amendments.
- Bank Indonesia Regulation No.9/19/PBI/2007 concerning Implementation of Sharia Principles in Deposits Fund, Financing, and Services including its amendments.

h. Accounting Treatment

- PSAK No. 102 concerning Murabahah Accounting
- Applicable PAPSI

i. Applicable to

Islamic Commercial Banks, Islamic Business Units and Islamic Rural Banks

IV. FINANCING BASED ON SALAM CONTRACT

a. Definition

Financing is a provision of funds or claims in the form of:

a. profit sharing transaction in the form of *Mudharabah* and *Musyarakah*;
b. leasing transaction in the form of *Ijarah* or lease and purchase transaction in the form of *Ijarah Muntahiyah bit Tamlik*;
c. sale and purchase transaction in the form of *Murabahah*, *Salam,* and *Istishna'*;
d. lending transaction in the form of *Qardh;* and
e. leasing transaction in the form of *Ijarah* for multi service financing;

based on agreement between Islamic Bank and/or Islamic Business Unit and another party obligating the party receiving financing and/or facility of funds to repay the funds after a specific term with additional return in the form of ujroh, without additional return or profit sharing.

b. Contract

Salam

Transaction of buy and sell of goods using order method with specified requirements and full cash payment in advance

c. Feature and Mechanism

- Bank shall act as the provider of fund in the Salam transaction with customer;
- Bank and customer shall be obliged to constitute written agreement in the form of financing based on Salam;
- Fund provided by Bank for customer shall be made fully in advance either immediately after entering Salam agreement or not later than 7 (seven) days after entering the financing based on Salam agreement; and
- The payment by Bank to customer shall not constitute a release for customer's debt owed to Bank or in the form of Bank receivables.

d. Objective/Benefit

1) For Bank

- as one of the forms in financing in the framework of procurement of certain goods in compliance with the need of the last customer.
- opportunity to earn profit if at the time of submission to bank the price market of the goods is higher than the amount of financing provided by bank.

	- earning revenue in the form of margin on the transaction of goods payment upon submission to the last customer.
2) For Customer	Procurement of fund in advance as working capital in production of goods.
e. Risk Analysis and Identification	- Credit risk due to customer's default - Market Risk caused by the movement of exchange rate if the capital of Salam is in foreign currency
f. Fatwa	Fatwa of National Islamic Council No: 05/DSN-MUI/IV/2000 concerning Salam Purchase and Sale transaction.
g. References	- Bank Indonesia Regulation No. 7/6/PBI/2005 concerning Transparency of Banking Products Information and The Use of Customer's Personal Data including its amendments. - Bank Indonesia Regulation No.9/19/PBI/2007 concerning Implementation of Sharia Principles in Deposits Fund, Financing, and Services including its amendments.
h. Accounting Treatment	- PSAK No. 103 concerning Salam Accounting - Applicable PAPSI
i. Applicable to	Islamic Commercial Banks, Islamic Business Units and Islamic Rural Banks

V. FINANCING BASED ON ISTISHNA' AGREEMENT

a. Definition

Financing is a provision of funds or claims in the form of:

a. profit sharing transaction in the form of *Mudharabah* and *Musyarakah*;
b. leasing transaction in the form of *Ijarah* or lease and purchase transaction in the form of *Ijarah Muntahiyah bit Tamlik*;
c. sale and purchase transaction in the form of *Murabahah*, *Salam,* and *Istishna'*;
d. lending transaction in the form of *Qardh;* and
e. leasing transaction in the form of *Ijarah* for multi service financing;

based on agreement between Islamic Bank and/or Islamic Business Unit and another party obligating the party receiving financing and/or facility of funds to repay the funds after a specific term with additional return in the form of ujroh, without additional return or profit sharing.

b. Contract

Isthisna'

Buy and sale transaction comprising an order for the production of goods with agreed specified criteria and requirements and with payment on agreed terms.

c. Feature and Mechanism

- Bank shall act as the fund provider in Istishna' transaction with customer; and
- The payment by Bank to customer shall not constitute a release for customer's debt owed to Bank or in the form of Bank receivables.

d. Objective/Benefit

1) For Bank

- as one of the forms in financing in the framework of providing goods needed by customer
- earning revenue in the form of margin

2) For Customer

d on specific requirements

e. Risk Analysis and Identification

- Credit risk due to customer's default, in terms of
- settlement of istishna' asset or settlement of payment obligation of the already submitted istishna' asset
- Market Risk caused by the movement of exchange rate if istishna' capital asset is settled in foreign currency.

f.	Fatwa	- Fatwa of National Islamic Council No: 06/DSN-MUI/IV/2000 concerning Istishna' purchase and sale agreement. - Fatwa of National Islamic Council No: 22/DSN-MUI/IV/2002 concerning Istishna' parallel purchase and sale agreement.
g.	References	- Bank Indonesia Regulation No. 7/6/PBI/2005 concerning Transparency of Banking Products Information and The Use of Customer's Personal Data including its amendments. - Bank Indonesia Regulation No.9/19/PBI/2007 concerning Implementation of Sharia Principles in Deposits Fund, Financing, and Services including its amendments.
h.	Accounting Treatment	- PSAK No. 104 concerning Istishna' Accounting - Applicable PAPSI
i.	Applicable to	Islamic Commercial Banks, Islamic Business Units and Islamic Rural Banks

VI. FINANCING BASED ON IJARAH CONTRACT

a. Definition

Financing is a provision of funds or claims in the form of:

a. profit sharing transaction in the form of *Mudharabah* and *Musyarakah*;
b. leasing transaction in the form of *Ijarah* or lease and purchase transaction in the form of *Ijarah Muntahiyah bit Tamlik*;
c. sale and purchase transaction in the form of *Murabahah*, *Salam,* and *Istishna'*;
d. lending transaction in the form of *Qardh;* and
e. leasing transaction in the form of *Ijarah* for multi service financing;

based on agreement between Islamic Bank and/or Islamic Business Unit and another party obligating the party receiving financing and/or facility of funds to repay the funds after a specific term with additional return in the form of ujroh, without additional return or profit sharing.

b. Contract

1) Ijarah

Leasing transaction on a specified goods and/or service between the owner of leased object including the right of use on leased object and the lessee in order to earn fee on the object leased.

2) Ijarah Muntahiya Bittamlik

Leasing transaction between the owner of leased object and the lessee to earn fee on the object leased with option of transfer of ownership of the leased object.

c. Feature and Mechanism

- Bank shall act as the fund provider in Istishna' transaction with customer;
- Bank has the obligation to provide fund for the realization the supply of leased object ordered by customer;
- Repayment of fund provided by Bank may be conducted by installment or bullett payment;
- Repayment of fund provided by Bank may not be conducted either in the form of receivables or by the release of debt owed to bank; and
- In the case of financing using Ijarah Muntahiya Bittamlik, bank shall act as the provider of fund in the transaction of Ijarah with customer as well as as the party providing promise (wa'ad) such as to give option on transfer of ownership on leased object to customer in accordance with the contract.

d. Objective/Benefit

1) For Bank	- as one of the forms in financing - earning revenue in the form of fee/ujroh
2) For Customer	- to obtain the rights of benefit on the required goods. - to have the opportunity to obtain the rights of ownership in the case of Ijarah Muntahiya Bittamlik - as source of financing and service of Islamic banking to have the rights of use on the leased object and/or to have the opportunity to the rights of ownership.
e. Risk Analysis and Identification	- Credit risk due to customer's default - Market Risk caused by the movement of exchange rate if the supply capital of Ijarah asset or if source of Ijarah financing is in foreign currency
f. Fatwa	- Fatwa of National Islamic Council No: 09/DSN-MUI/IV/2000 concerning Ijarah financing. - Fatwa of National Islamic Council No: 27/DSN-MUI/IV/2002 concerning Al Ijarah al Muntahiyah bi al-Tamlik.
g. References	- Bank Indonesia Regulation No. 7/6/PBI/2005 concerning Transparency of Banking Products Information and The Use of Customer's Personal Data including its amendments. - Bank Indonesia Regulation No.9/19/PBI/2007 concerning Implementation of Sharia Principles in Deposits Fund, Financing, and Services including its amendments.
h. Accounting Treatment	- PSAK No. 59 concerning Islamic Banking Accounting - Applicable PAPSI
i. Applicable to	Islamic Commercial Banks, Islamic Business Units and Islamic Rural Banks

VII. FINANCING BASED ON QARDH CONTRACT

a. Definition

Financing is a provision of funds or claims in the form of:

a. profit sharing transaction in the form of *Mudharabah* and *Musyarakah*;
b. leasing transaction in the form of *Ijarah* or lease and purchase transaction in the form of *Ijarah Muntahiyah bit Tamlik*;
c. sale and purchase transaction in the form of *Murabahah*, *Salam,* and *Istishna'*;
d. lending transaction in the form of *Qardh;* and
e. leasing transaction in the form of *Ijarah* for multi service financing;

based on agreement between Islamic Bank and/or Islamic Business Unit and another party obligating the party receiving financing and/or facility of funds to repay the funds after a specific term with additional return in the form of ujroh, without additional return or profit sharing.

b. Contract

Qardh

Transaction of lending and borrowing of funds without any remuneration with the obligation to repay only the loan principal that can be made on bullet payment or installment basis over a specified period.

c. Feature and Mechanism

- Bank shall act as fund provider for customer for loan based on Qardh contract;
- Bank is not permitted, for any reason, to request higher repayment than the nominal value stated in the contract;
- Bank is not permitted to put any charge on the financing based on Qardh, except administrative fee within reasonable limit;
- Repayment of financing based on Qardh must be conducted by customer at the specified term; and
- In the event that customer is able to afford repayment but does not repay a part or all of his obligations at the agreed time, Bank may impose financial penalty in accordance with sharia principles in the framework of customer's development.

d. Objective/Benefit

1) For Bank

- one of the forms in financing including in the framework of the implementation of bank social function.
- opportunity to earn fee from other services accompanied by providing Qardh facility.

2) For Customer

- non commercial credit source
- source of financing for customer requiring fund related to guarantee

		and transfer of obligation.
e.	Risk Analysis and Identification	- Credit risk due to customer's default - Market Risk caused by the movement of exchange rate if Qardh for commercial transaction is in foreign currency.
f.	Fatwa	Fatwa of National Islamic Council No: 19/DSN-MUI/IV/2001 concerning Al Qardh.
g.	References	- Bank Indonesia Regulation No. 7/6/PBI/2005 concerning Transparency of Banking Products Information and The Use of Customer's Personal Data including its amendments. - Bank Indonesia Regulation No.9/19/PBI/2007 concerning Implementation of Sharia Principles in Deposits Fund, Financing, and Services including its amendments.
h.	Accounting Treatment	- PSAK No. 59 concerning Islamic Banking Accounting - Applicable PAPSI
i.	Applicable to	Islamic Commercial Banks, Islamic Business Units and Islamic Rural Banks

VIII. MULTISERVICE FINANCING

a. Definition

Financing is a provision of funds or claims in the form of:

a. profit sharing transaction in the form of *Mudharabah* and *Musyarakah*;
b. leasing transaction in the form of *Ijarah* or lease and purchase transaction in the form of *Ijarah Muntahiyah bit Tamlik*;
c. sale and purchase transaction in the form of *Murabahah*, *Salam,* and *Istishna'*;
d. lending transaction in the form of *Qardh;* and
e. leasing transaction in the form of *Ijarah* for multi service financing;

based on agreement between Islamic Bank and/or Islamic Business Unit and another party obligating the party receiving financing and/or facility of funds to repay the funds after a specific term with additional return in the form of ujroh, without additional return or profit sharing.

b. Contract

1) Ijarah

Leasing transaction on a specified goods and/or service between the owner of the leased goods including the right of use on the leased goods and the lessee in order to earn fee on the object leased.

2) Kafalah

Guarantee transaction provided by insurer (kafil) to a third party or insured (makful lahu) to fulfill the obligation of the second party (makful 'anhu/ashil).

c. Feature and Mechanism

Multiservice financing based on Ijarah contractBank shall act as the provider of funds in Ijarah transaction with customer;

- Bank shall have the obligation of providing funds for the realization of the supply of leased goods ordered by customer;
- Repayment of funds provided by Bank may be conducted in the form of installment or in bullet payment.
- Repayment of funds provided by Bank may not be conducted in the form of receivables or the release for the customer's debt to Bank.

Multiservice financing based on Kafalah contract

- Bank shall act as the provider of guarantee in fulfilling customer's obligation to the third party;
- Guarantee's object must:
    - be born to the party requiring the guarantee;
    - be clearly stated in terms of value, amount and specifications; and

- not against sharia principles (permissible)

- Bank may earn fee based on the contract made in advance that shall be stated in a fixed nominal value;
- Bank may request a guarantee in the form of cash collateral or other kind of collateral on the insured value; and
- In the event that customer fails to fulfill the obligation to the third party, Bank will consequently fulfill customer's obligation to the third party by providing advance as financing based on Qardh contract that must be settled by customer.

d. Objective/Benefit

1) For Bank	- as one of the forms in financing in the framework of providing services to customers. - earning revenue in the form of fee/ujroh.
2) For Customer	fulfilling the need of specified services related to education and health as well as other services considered permissible in Sharia principles.

e. Risk Analysis and Identification	- Credit risk due to customer's default - Market Risk due to the movement of exchange rate if the multiservice financing for commercial transaction is in foreign currency.
f. Fatwa	Fatwa of National Islamic Council No: 44/DSN-MUI/IV/2004 concerning Multiservice financing.
g. References	- Bank Indonesia Regulation No. 7/6/PBI/2005 concerning Transparency of Banking Products Information and The Use of Customer's Personal Data including its amendments. - Bank Indonesia Regulation No.9/19/PBI/2007 concerning Implementation of Sharia Principles in Deposits Fund, Financing, and Services including its amendments.
h. Accounting Treatment	- PSAK No. 59 concerning Islamic Banking Accounting Applicable PAPSI
i. Applicable to	Islamic Commercial Banks, Islamic Business Units and Islamic Rural Banks

C. SERVICES

I. ISLAMIC IMPORT LETTER OF CREDIT (L/C)

a. Definition

Import L/C is a statement of payment for exporter (beneficiary) published by Bank (issuing bank) based on the requirement of importer with the fulfillment of certain conditions (Uniform Customs and Practice for Documentary Credits/UCP).

b. Contract

1) Wakalah bil Ujroh

- Wakalah is the transfer of authority from one party (muwakkil) to other party (wakil) in relation with transferable matters.
- Wakalah bil Ujroh is wakalah contract by providing fee/ujroh to wakil.
- Wakalah bil Ujroh contract can be performed with or without Qardh or Mudharabah or Hawalah.

2) Kafalah

- Guarantee transaction provided by insurer (kafil) to a third party or insured (makful lahu) to fulfill the obligation of the second party (makful ‘anhu/ashil).

c. Feature and Mechanism

- Bank acts as the representative and the guarantor of guarantee to fulfill the obligation of importer to exporter in conducting payment (akad wakalah bil ujroh and kafalah);
- The object of guarantee should be:
  - the obligation of importer;
  - clear in terms of value, total and specification including the period of guarantee; and
  - compliance with sharia principles (permissible)
- Bank is allowed to receive fee that has been agreed in advance and defined on a fixed nominal value and not in the form of percentage;
- Importer must have fund placed in the bank at the same amount with the payment of goods to be imported (contract of wakalah bil ujroh);
- In the event where importer does not have sufficient fund in the bank for the payment of the goods to be imported:
  - bank will provide bailout (qardh) to importer for the settlement of payment of the imported goods (contract of wakalah bil ujroh and qardh); and
  - bank can act as shahibul maal providing capital to the importer at the same amount as the price of the goods to be imported (contract of wakalah bil ujroh and mudharabah);
- In the event where importer does not have sufficient fund in the bank for the payment of the goods to be imported and payment has not been settled:

- debt to exporter can be transferred by importer to debt to bank by requiring the bank to pay to exporter the same amount as the price of the goods to be imported (contract of wakalah bil ujroh and hawalah).

d. Objective/Benefit

1) For Bank
- source of income in the form of fee/ujroh of wakalah bil ujroh and kafalah contract.
- source of income in the form of profit sharing of wakalah bil ujroh and mudharabah contract.
- source of income in the form of fee/ujroh of wakalah bi ujroh and hawalah contract.

2) For Customer
- receiving goods imported with the correct supporting documents
- earning fee from payment settlement and or guarantee
- acceptance that supports the activity in international trade

e. Risk Analysis and Identification
- Credit risk due to importer incapability in settling the claim of L/C payment
- Market Risk due to bank difficulties in obtaining foreign currency required at the time of payment.
- Operational Risk due to unreliable management of information technology.

f. Fatwa
Fatwa of National Islamic Council No: 34/DSN-MUI/IV/2002 concerning Mudharabah financing (Qiradh).

g. References
- Bank Indonesia Regulation No.3/10/PBI/2001 concerning Know Your Customer Principles) including its amendments.
- Bank Indonesia Regulation No. 7/6/PBI/2005 concerning Transparency of Banking Products Information and The Use of Customer's Personal Data including its amendments.
- Bank Indonesia Regulation No.9/19/PBI/2007 concerning Implementation of Sharia Principles in Deposits Fund, Financing, and Services including its amendments.

h. Accounting Treatment
- PSAK No. 59 concerning Islamic Banking Accounting
- PSAK No. 105 concerning Mudharabah Accounting
- Applicable PAPSI

i. Applicable to
Islamic Commercial Banks and Islamic Business Units.

II. ISLAMIC BANK GUARANTEE

a. Definition

Bank guarantee is the guarantee letter issued by Bank to a third party who receives the guarantee on specified fulfillment by bank customer as the party guaranteed by bank to the concerned third party.

b. Contract

Kafalah

Guarantee transaction provided by insurer (kafil) to a third party or insured (makful lahu) to fulfill the obligation of the second party (makful 'anhu/ashil).

c. Feature and Mechanism

- Bank acts as the provider of guarantee on the fulfillment of customer's obligations toward the third party;
- The guarantee contains contract between Bank and the second party guaranteed by Bank and completed with the witnesses of the receiver of guarantee;
- The object of guarantee should be:
  - the obligation of the party requiring guarantee;
  - clear in terms of value, total and specification including the period of guarantee; and
  - in compliance with sharia principles (permissible)
- Bank is allowed to receive fee that has been agreed in advance and defined on a fixed nominal value;
- Bank is allowed to require guarantee in the form of Cash Collateral or other forms of collateral based on the guarantee value; and
- In the event where customer fails to fulfill its obligation to third party, Bank will fulfill the said obligation to the third party by providing bailout as financing based on Qardh contract to be settled by customer.

d. Objective/Benefit

1) For Bank

as the source of revenue in the form of fee/ujroh

2) For Customer

to enhance creditworthiness in order to beaccepted in partnership.

e. Risk Analysis and Identification

- Reputation risk due to bank incapability in fulfilling agreed commitment.
- Credit Risk due to customer's incapability to repay Qardh receivables.

f. Fatwa

Fatwa of National Islamic Council No: 11/DSN-MUI/IV/2000 concerning Kafalah

g.	References	- Bank Indonesia Regulation No.3/10/PBI/2001 concerning Know Your Customer Principles including its amendments. - Bank Indonesia Regulation No. 7/6/PBI/2005 concerning Transparency of Banking Products Information and The Use of Customer's Personal Data including its amendments. - Bank Indonesia Regulation No.9/19/PBI/2007 concerning Implementation of Sharia Principles in Deposits Fund, Financing, and Services including its amendments.
h.	Accounting Treatment	- PSAK No. 59 concerning Islamic Banking Accounting - Applicable PAPSI
i.	Applicable to	Islamic Commercial Banks and Islamic Business Units.

III. FOREIGN EXCHANGE (SHARF)

a.	Definition	Foreign Currency Exchange is the services provided by Islamic bank to buy or sell the same currency (single currency) and different currencies (multi currencies) to be exchanged or required by customer
b.	Contract	
	Sharf	Transaction that involves the exchange between different currencies
c.	Feature and Mechanism	- Bank shall act as the party receiving the exchange or party exchanging the money from or to customer; - Transaction of foreign exchange currency may only be conducted in the form of spot transaction; and - In the event that money exchange is performed involving different currencies in money changer activity, the transaction must be conducted in cash by using the exchange rate applicable at the time of transaction.
d.	Objective/Benefit	
	1) For Bank	- Providing foreign currency required by customer. - Earning profit from the rate margin in the event of different currencies.
	2) For Customer	Obtaining the currency required for transaction.
e.	Risk Analysis and Identification	- Operational risk due to human error or fraud - Legal risk related to criminal act of money laundering by using money changer facility.
f.	Fatwa	Fatwa of National Islamic Council No: 28/DSN-MUI/IV/2002 concerning Sale and Purchase of Currency (Al-Sharf).
g.	References	- Bank Indonesia Regulation No.3/10/PBI/2001 concerning Know Your Customer Principles including its amendments. - Bank Indonesia Regulation No. 7/6/PBI/2005 concerning Transparency of Banking Products Information and The Use of Customer's Personal Data including its amendments. - Bank Indonesia Regulation No.9/19/PBI/2007 concerning Implementation of Sharia Principles in Deposits Fund, Financing, and Services including its amendments.
h.	Accounting Treatment	- PSAK No. 59 concerning Islamic Banking Accounting - Applicable PAPSI

i.	Applicable to	Islamic Commercial Banks (with foreign exchange license or with Authorized Money Changer license), Islamic Business Unit (with foreign exchange license or with Authorized Money Changer license), and Islamic Rural Bank (with Authorized Money Changer license).